The RUTLAND
CORPORATION
Annual
Report 1966

THE RUTLAND CORPORATION ANNUAL REPORT, 1966

CORPORATE INFORMATION

THE RUTLAND CORPORATION
Rutland, Vermont

David R. Webb Company Division
Edinburg, Indiana

OFFICERS:

President:
Frank A. Augsbury, Jr.
Executive Vice President:
Lloyd G. Bucklin
Vice President:
Eric H. Lundin
Treasurer:
Sol M. Rosenberg
Clerk (Secretary):
Lloyd G. Bucklin

DIRECTORS:

*Wallace M. Fay, Chairman
†*Frank A. Augsbury, Jr.
Lloyd G. Bucklin
Harry M. Ditisheim
L. James Gumpert
†Michael Joelson
†*Lawrence R. Kessel
George J. Lyon
*Louis S. Rothschild

COUNSEL:
Thomas W. Lynch, Esq., Vermont
Stroock & Stroock & Lavan, Esqs., New York

CERTIFIED PUBLIC ACCOUNTANTS:
Haskins & Sells, Boston, Mass.

REGISTRAR:
United States Trust Company of New York

TRANSFER AGENT:
Manufacturers Hanover Trust Company

(* denotes members of the Executive Committee)
(† denotes members of the Webb Division Management Committee)

To The Stockholders:

The calendar year 1966 was a significant one for The Rutland Corporation. It marked the implementation of your Company's diversification program and the inception of its industrial income-producing operations. The Rutland Shopping Plaza opened for business on October 12, 1966. The David R. Webb Company, a leading manufacturer of quality veneers, became a division as of October 21, 1966.

The Shopping Plaza and the Webb Division were operational for only 67 and 53 business days respectively during our final quarter. They could not, therefore, contribute to any important extent to 1966 corporate revenue.

Accordingly, the accompanying Statement of Consolidated Income and Deficit for the year ended December 31, 1966, which reports a consolidated net loss of $96,512 includes the earnings of the David R. Webb Company Division and your Company's share of the Rutland Shopping Plaza rental income only for those limited periods.

The accompanying Consolidated Balance Sheet as at December 31, 1966 reflects the excellent financial condition of The Rutland Corporation. Current assets amounted to $5,234,196 compared with current liabilities of $1,735,962; a current ratio of 3 to 1.

Disposition of former railroad properties and related assets continued at a satisfactory rate. During the year 1966, your Company received $221,579 for properties sold, which amount is approximately equal to the estimated realizable value established for them in 1964. This brought the total proceeds realized from railroad assets during the period from 1962 to December 31, 1966 to approximately $8,500,000. Properties still held at December 31, 1966 for future disposal are shown in the accompanying Consolidated Balance Sheet at $182,124, their estimated realizable value (originally established in 1964).

Capitalization of The Rutland Corporation at December 31, 1966 consisted of 46,664 shares (1,000 shares held in treasury) of $65 par value, 6% cumulative Preferred stock (quarterly dividend of 97½¢ or $3.90 per year); 73,612 shares of Common stock; and 46,664 warrants entitled to purchase an equal number of Common shares commencing at a price of $40 per share. In addition, options to pur-

chase 3,000 shares of Common stock at $64 per share were outstanding at year end under your Company's Key Employees Qualified Stock Option Plan.

The accompanying Consolidated Balance Sheet and Statement of Consolidated Income and Deficit at December 31, 1966 reflect a deficit of $2,886,258 based primarily on railroad accounting methods formerly required by the Interstate Commerce Commission. Under the Internal Revenue Code, however, your Company's 1966 Federal corporate income tax return will show an aggregate net operating loss carry forward of approximately $15,000,000. The Company's returns for the years in which such net operating losses were incurred have not yet been examined by the Internal Revenue Service.

Dividends on the 45,664 outstanding shares of $65 par value Preferred stock have been paid through December 31, 1966. On February 28, 1967 the Directors declared the regular dividend of 97½¢ per share on the Preferred stock payable March 31, 1967 to stockholders of record March 15, 1967.

During the year under review, the number of Directors was reduced from thirteen to nine. Messrs. Gordon W. Cutler, Donald H. Hackel, Eric H. Lundin, David S. Rosen and William H. Ross resigned. We wish to acknowledge their services and devotion to the interests and affairs of The Rutland Corporation and express our appreciation for their counsel and guidance. Mr. Michael Joelson, formerly Executive Vice President of David R. Webb Company, Inc. was elected to the Board. We welcome him and look forward to the benefit of his knowledge and experience.

In the opinion of your Directors, The Rutland Corporation has firmly established an excellent basis for sizeable future earnings. Your Company is also vigorously continuing its investigations of various other opportunities for acquisitions.

The Directors and Officers wish to express their appreciation of the support and confidence of our stockholders and employees.

By Order of the Board of Directors

W. M. Fay

Wallace M. Fay
Chairman

F. A. Augsbury, Jr.

Frank A. Augsbury, Jr.
President

March 31, 1967

EXECUTIVE COMMITTEE

WALLACE M. FAY
Chairman of the Board,
The Rutland Corporation.

Formerly Vice-President (Retired): Vermont Marble Company.

FRANK A. AUGSBURY, Jr.
President

President: George Hall Corporation, Hall Corporation of Canada, Augsbury Oil Corporation, Augsbury Terminals, Inc., Green Mountain Petroleum Corporation.

Director: Empire State Chamber of Commerce, Agricultural Insurance Company, Ogdensburg Trust Company, National Bank of Northern New York.

LOUIS S. ROTHSCHILD
Director

Formerly United States Undersecretary of Commerce, Chairman of the Federal Maritime Board.

President: Transport Equities Corporation, Standard Real Estate Improvement Company.

Director: Mechanical Enterprises, Inc.

LAWRENCE R. KESSEL
Director

General Partner, Lawrence Kessel & Associates, Investments.
Member of Board of Managers: The Delaware and Hudson Company.

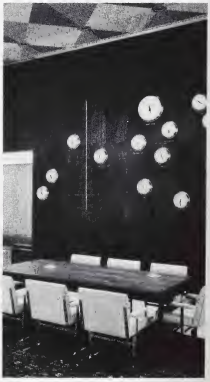
Director: The Delaware and Hudson Railroad Corporation, Wood Harmon Corporation.

Director & Member of Executive Committee: A. S. Beck Shoe Corporation.

Harvey Probber's unusual "entertainment center" is beautifully finished in Webb teak and ebony veneers.

Webb Brazilian Rosewood veneer was chosen by Knoll Associates for this unique table-desk and matching storage cabinets.

◀ Board Room of Universal-American Corporation, Pan-Am Building, New York, paneled in Webb Brazilian Rosewood veneer. The conference table is finished in Webb quartered East Indian Rosewood veneer.



Above: First National City Bank's International Center banking floor, New York, paneled in Webb's exotic Japanese Tamo wood veneer.

New York Hilton Hotel's main lobby, paneled in Webb walnut veneer.

DAVID R. WEBB COMPANY DIVISION The David R. Webb Company, now a division of The Rutland Corporation, is one of the leading manufacturers of high quality wood veneers for the furniture and plywood industries. The division also produces walnut lumber.

The business was founded 72 years ago. Its plant and executive offices are located in Edinburg, Indiana, approximately 35 miles from Indianapolis. Some 200 people are employed in well maintained facilities. Modern machinery and equipment account, in part, for the efficiency of Webb's operations and the consistently high standards of quality of all its products.

Webb showrooms are located in Edinburg, Indiana; High Point, North Carolina; and New York City. From these points, Webb sales personnel effectively sell customers throughout the United States, Canada, Europe and South America.

Webb produces and sells native (domestic) and imported wood veneers. Domestic varieties include: Cherry, Walnut, Maple, White Oak, Ash and Elm. Imported woods include: Brazilian Rosewood, Burmese Teak, Macassar Ebony, Japanese Ash, East Indian Laurel, Swedish Pine, Swiss Pearwood, Zebra Wood, Prima Vera, French Walnut, English Oak, German Oak, Carpathian Elm Burls and other exotic varieties.

The outstanding quality and wide variety of wood veneers produced by Webb make them of special interest to decorators, interior designers and architects. Typical of the corporate and institutional installations throughout the world in which Webb veneers are used are the International Monetary Fund Bank's main floor, Washington, D.C.; the

banking floor of First National City Bank's International Banking Center, New York, N.Y.; Philip Morris, Inc.'s executive offices, New York, N.Y.; Chemical Bank New York Trust Company's private executive dining rooms, New York, N.Y.; Banco Popular's main banking floor and executive offices, San Juan, Puerto Rico; the New York Hilton Hotel's main lobby, New York, N.Y.; Merck, Sharpe & Dohme International's headquarters' lobby, New York, N.Y.

THE RUTLAND SHOPPING PLAZA The Rutland Shopping Plaza is one of the first "downtown" shopping centers in the United States. It is a joint venture of The Rutland Corporation and Philip J. Levin, one of the country's leading developers of realty projects.

The Plaza is located in the heart of Rutland, Vermont on the site of what was formerly the Rutland Railway Company's freight and passenger depots and railroad yards. It contains 167,449 square feet of rentable space surrounded (except for a remaining Vermont Railway Company single track right of way at the rear of the site) by parking facilities for more than 1,000 cars.

Three prime tenants occupy more than 60% of the available space. The W. T. Grant Company leases 76,135 square feet; First National Stores leases 22,170 square feet; and Firestone Tire and Rubber Company leases 8,258 square feet, plus free standing space for customers' automobiles.

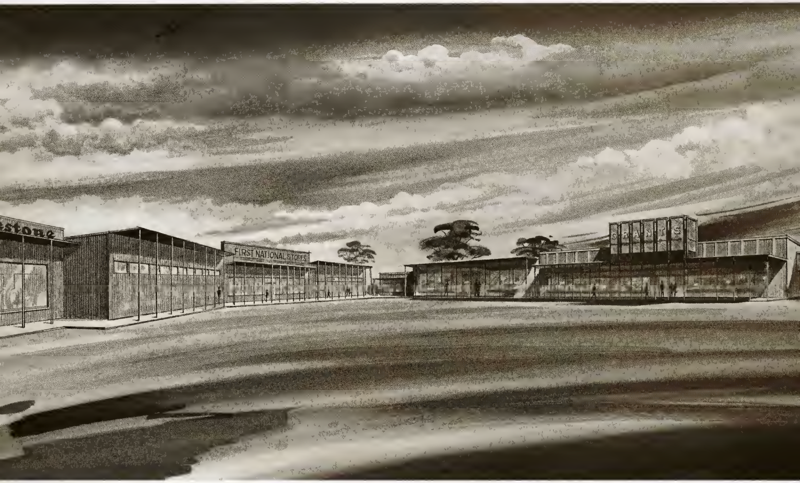
Other tenants include the Ethan Allen National Bank, The Rutland County Bank Drive-In, American Finance Company, The Singer Sewing Machine Company, Fanny Farmer Candies, Rutland Cable TV, Royce Shoes, M-A-C Loan Company, Tasty Bakery, Gladstone Shoes, Rix Drugs, Gold Bond, REA Express Agency and Sears, Roebuck & Co.

The first tenant unit opened for business on October 12, 1966. This was the W. T. Grant store, one of their largest outlets. At the end of the year under review, more than 75% of the rentable space was open for business including First National Stores, Firestone Tire and Rubber Company and other tenants. It is anticipated that the remaining space will open during 1967.

Permanent financing of the Plaza in the amount of $1,950,000 was completed February 20, 1967 with The New York Bank for Savings and is evidenced by a 20-year, 5¾% mortgage secured only by the property itself and assignments of certain of its leases.

The Rutland Shopping Plaza is an excellent investment for The Rutland Corporation. It has also stimulated widespread property improvements in downtown Rutland and is expected to have a favorable effect on the value of other real estate owned by your Company in Rutland, Vermont.

The Rutland Corporation allocated approximately two-thirds of its total realty holdings in the heart of Rutland to the Plaza. The remaining one-third, including the modernized building housing the Company's corporate headquarters, adjoins the Shopping Plaza and is being held for future sale or development.


estone
FIRST NATIONAL STORES
GRANTS

THE RUTLAND CORPORATION AND SUBSIDIARY

ASSETS

CURRENT ASSETS:		
Cash		$ 1,117,260
Short-term marketable securities — at cost plus earned discount		1,419,644
Receivables (less allowance for doubtful accounts, $10,000):		
Trade	$ 492,969	
Other	134,672	627,641
Inventories — at the lower of average cost or market		2,021,396
Prepaid expenses		48,255
Total current assets		5,234,196
PROPERTY, PLANT, AND EQUIPMENT — at cost less accumulated depreciation of $163,948		2,024,887
INVESTMENTS:		
Rutland Shopping Plaza (Note 2)	30,540	
French affiliate (Note 3)	118,947	
Other	15,704	165,191
OTHER ASSETS:		
Excess of purchase price over net assets of acquired business (Note 1)	3,381,253	
4% note receivable (Note 6)	500,448	
Former railroad properties held for disposal — at estimated realizable value	182,124	
Non-current instalment notes and other receivables	32,663	
Restricted funds and deposits	16,072	4,112,560
TOTAL ASSETS		$11,536,834

See notes to financial statements.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1966

LIABILITIES and SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable — current portion (Note 4)		$ 700,000
Trade accounts payable		157,089
Employee withholdings		29,068
Accrued expenses:		
Salaries, wages, bonuses, and commissions	$ 80,155	
Property, payroll, and other taxes	40,099	
Professional services	137,623	257,877
Portion of liabilities assumed from David R. Webb Company, Inc. (Note 1):		
Federal income taxes	405,349	
Accrued expenses	170,312	
Other	16,267	591,928
Total current liabilities		1,735,962
NON-CURRENT LIABILITIES:		
Notes payable — less current portion included above (Note 4)	3,600,000	
Retirement benefits payable after one year (Note 5)	304,125	
Casualty and other claims, etc.	38,896	3,943,021
Total liabilities		5,678,983
SHAREHOLDERS' EQUITY (Notes 6 and 7):		
Capital stock:		
6% cumulative preferred, $65 par value — authorized and issued, 46,664 shares; outstanding, 45,664 shares, after deducting 1,000 treasury shares below	3,033,160	
Common, $1 par value — authorized, 606,916 shares; issued and outstanding, 73,612 shares	73,612	
Capital surplus	5,690,930	
Deficit	(2,886,258)	
Total	5,911,444	
Less treasury stock — 1,000 shares of 6% cumulative preferred, at cost	53,593	
Shareholders' equity — net		5,857,851
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$11,536,834

See notes to financial statements.

CONSOLIDATED INCOME and DEFICIT

INCOME:		
Sales of products—net		$1,117,743
Interest		175,016
Rentals and other		19,633
Total income		1,312,392
COSTS, EXPENSES, AND CHARGES:		
Cost of products sold	$669,822	
Selling expenses	82,700	
General and administrative expenses (including expenses of investigating acquisition opportunities—Note 8)	460,074	
Cost of maintaining and disposing of former railroad properties	86,405	
Share of loss of Rutland Shopping Plaza (Note 2)	46,872	
Interest	63,031	1,408,904
NET LOSS		96,512
DEFICIT AT BEGINNING OF YEAR		2,789,746
DEFICIT AT END OF YEAR		$2,886,258

CONSOLIDATED CAPITAL SURPLUS

BALANCE AT BEGINNING OF YEAR	$5,206,571
ADD:	
Excess of proceeds of sale of common stock over par value (Note 6)	661,500
Sundry credits	950
Total	5,869,021
DEDUCT—Cash dividends on 6% cumulative preferred stock—$3.90 per share	178,091
BALANCE AT END OF YEAR	$5,690,930

See notes to financial statements.

STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1966

CONSOLIDATED SOURCE and APPLICATION OF FUNDS

SOURCE OF FUNDS:		
Operations:		
Charges (credits) not requiring current expenditures of funds:		
Share of loss of Rutland Shopping Plaza (Note 2)	$ 46,872	
Provision for future retirement benefits (Note 5)	40,000	
Depreciation	35,072	
Other—net	(10,952)	$ 110,992
Less—net loss for the year		96,512
Funds provided from operations		14,480
Notes payable to bank (net of $200,000 instalment paid)		4,300,000
Collection of receivable from Ogdensburg Bridge and Port Authority		625,500
Cash distributions from Rutland Shopping Plaza (including return of advances)		230,000
Sale of former railroad properties		221,579
Sale of 13,500 shares of common stock (net of note received as partial payment) (Note 6)		174,552
Increase in other current payables and accrued expenses		379,745
Reduction in receivables		168,863
Total		6,114,719
APPLICATION OF FUNDS:		
Purchase of assets of David R. Webb Company, Inc. (Note 1)-Cash payment	8,007,500	
Less—cash included in purchased assets —net of fees and assumed liabilities paid	1,029,168	6,978,332
Dividends on 6% cumulative preferred stock		178,091
Purchases of property items and all other—net		12,556
Total		7,168,979
EXCESS OF FUNDS APPLIED		$1,054,260
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of year		$3,591,164
End of year		2,536,904
Decrease during the year		$1,054,260

See notes to financial statements.

1. ACQUISITION AND PRINCIPLES OF CONSOLIDATION On October 21, 1966 The Rutland Corporation purchased all of the assets of David R. Webb Company, Inc. for a cash payment of \$8,007,500 plus the assumption of all Webb liabilities. The operations thus acquired have been continued as the David R. Webb Company Division of the Corporation. The results of operations of this division and a related wholly-owned subsidiary, Webb Realty Corp., are included in the consolidated financial statements from the date of their acquisition.

2. INVESTMENT IN RUTLAND SHOPPING PLAZA At December 31, 1966 the Corporation's investment in the Rutland Shopping Plaza, a 50% joint venture, is stated at the approximate cost of land it contributed to the Plaza, \$267,412, less (1) subsequent cash distributions (net), \$190,000, and (2) the Corporation's share of the net losses of the Plaza for the two years ended December 31, 1966 (primarily the construction period), \$46,872.

The properties of the Plaza are mortgaged and certain leases are assigned to The New York Bank for Savings under a twenty-year, first mortgage loan agreement which provides that the joint venturers will not be liable for any deficiency between the loan balance and the proceeds of any foreclosure sale.

In connection with the leasing by the Plaza of an adjoining municipal parking area, the Corporation has guaranteed the payment of a promissory note of the City of Rutland, to be paid from the receipts of all City parking meters. As of December 31, 1966 the balance payable by the City under this note was \$117,500 (originally \$125,000).

3. INVESTMENT IN FRENCH AFFILIATE The assets purchased from David R. Webb Company, Inc. included an investment in 53% of the outstanding capital stock of Societe de Fabrication et D'Exportation de Placages, a French Corporation in the process of liquidation. The cost of this investment, \$118,947, approximates the estimated amount to be received as remaining liquidating distributions.

4. NOTES PAYABLE On September 30, 1966 the Corporation entered into a loan agreement with the Chemical Bank New York Trust Company whereby it received \$4,500,000 which is payable, with interest at 6¾% (6¼% effective January 30, 1967), in varying instalments from December 31, 1966 to June 30, 1968. On October 21, 1966 the Corporation entered into a loan agreement with Massachusetts Mutual Life Insurance Company whereby it will receive \$3,300,000 in July 1967, subject to certain conditions having first been met, which proceeds will be applied in partial payment of the aforementioned bank loan. This latter loan will be payable in annual instalments of \$236,000 from July 1, 1969 through July 1, 1981 and a final instalment of \$232,000 on July 1, 1982, together with interest at 6½% and supplemental annual fee payments based upon consolidated net earnings.

The aforementioned loan agreements contain certain restrictive provisions including requirements as to the maintenance of consolidated working capital and restrictions on the payment of dividends and other distributions, except for stock dividends and regular dividends on the 6% cumulative preferred stock; no cash dividends may be paid on the Corporation's common stock prior to July 1, 1968.

5. RETIREMENT BENEFITS PAYABLE, ETC. The Corporation has assumed the obligations of David R. Webb Company, Inc. in respect to a trusteed pension plan for salaried employees. This plan provides monthly retirement income upon a participant's retirement through the purchase of annuity contracts, as well as certain life insurance benefits. The Corporation has charged \$7,856 against income representing that portion of the annual cost of the

plan applicable to the period from October 21 to December 31, 1966. There is no past service liability with respect to this plan.

The Corporation also assumed certain unfunded pension obligations of Webb, the aggregate liability for which, determined on an actuarial basis, is included in the consolidated balance sheet. In addition, the Corporation has entered into agreements with two officers providing for specified pension payments upon retirement. The aggregate liability therefor, determined on an actuarial basis, is being provided over the remaining period of the officers' employment; the Corporation provided $40,000 for such pensions during the year.

The Corporation has entered into employment and consulting agreements for periods of from three to five years with management personnel of the former David R. Webb Company, Inc. providing for fixed annual compensation plus profit-sharing bonuses.

6. CHANGE IN AUTHORIZED CAPITAL STOCK AND SALE OF COMMON STOCK On September 23, 1966 the stockholders approved an increase in authorized common stock from 106,916 shares to 606,916 shares and a decrease in the authorized 6% cumulative preferred stock from 46,804 shares to 46,664 shares. Subsequently the Corporation sold 13,500 shares of common stock at $50 per share. Of these shares 12,832 (held as collateral) were sold to a company owned by certain key employees of the David R. Webb Company Division and the Corporation received as partial payment therefor a 4% promissory note for $500,448 due on October 21, 1969. The remaining 668 shares were sold to another key employee of this Division. The excess of the proceeds of the sales over the par value of the common stock issued was credited to capital surplus.

7. COMMON STOCK OPTION PLAN AND WARRANTS On September 23, 1966 the stockholders approved the Key Employees Qualified Stock Option Plan. Under the terms of this plan options may be granted, until August 23, 1976, to eligible key employees to purchase up to 7,500 shares of common stock, at a price at least equal to the fair market value of the stock at the date of grant. Options will be exercisable for a period of up to five years from the date of grant. On November 17, 1966, options to purchase an aggregate of 3,000 shares at $64 a share were granted to five employees. One-third of these options are exercisable cumulatively in each of the first three years; none were exercised as of December 31, 1966.

At December 31, 1966 warrants for 46,664 shares of the Corporation's common stock were outstanding and an equal number of shares of unissued stock were reserved therefor. Each warrant, issued in 1964 in connection with an exchange of the Corporation's preferred stock, entitles the holder to purchase one share of common stock during a ten-year period at $40 per share during the first three years, $45 per share during the next three years, and $50 per share thereafter. The warrants are not exercisable and the ten-year period does not commence until a registration statement under the Securities Act of 1933 is effective.

8. ACQUISITION PROGRAM AND FEDERAL INCOME TAX STATUS The Corporation's management has been investigating additional acquisition opportunities, the consummation of which could result in the investment of cash and/or the issuance of capital stock.

The 1965 Federal income tax return filed by the Corporation showed substantial aggregate net operating losses incurred in 1965 and prior years available for carry-forward against future taxable income in decreasing amounts for a period of at least five years. None of the years in which the carry-forward losses were incurred have been examined by the Internal Revenue Service.

ACCOUNTANTS' OPINION

HASKINS & SELLS
Certified Public Accountants

70 Federal Street
Boston 02110

The Rutland Corporation:

We have examined the consolidated balance sheet of The Rutland Corporation (formerly Rutland Railway Corporation) and subsidiary as of December 31, 1966 and the related statements of consolidated income and deficit, capital surplus, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the companies at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 17, 1967

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The RUTLAND
CORPORATION
RUTLAND, VERMONT